

SENATE BILL REPORT

E2SHB 3115

As Reported By Senate Committee On:
Economic Development, Trade & Management, February 27, 2008

Title: An act relating to small business incubators.

Brief Description: Concerning small business incubators.

Sponsors: House Committee on Apps Subcom GG (originally sponsored by Representatives Kenney, Skinner, Green, Wallace, Haler, Chase, Rodne, Conway, Morrell, Linville, VanDeWege, Loomis, Kelley, Rolfes, Lias, Ormsby and Darneille).

Brief History: Passed House: 2/14/08, 94-0.

Committee Activity: Economic Development, Trade & Management: 2/20/08, 2/27/08 [DPA-WM].

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & MANAGEMENT

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.

Signed by Senators Kastama, Chair; Kilmer, Vice Chair; Zarelli, Ranking Minority Member; Kauffman, King and Shin.

Staff: Aaron Gutierrez (786-7448)

Background: The Washington Small Business Incubator and Entrepreneurship Assistance Act of 2004 created the Small Business Incubator (SBI) program administered by the Department of

Community, Trade and Economic Development (CTED). A business incubator is defined as "a facility that offers space for start-up and expanding firms; the shared use of equipment and work areas; daily management support services essential to high-quality commercial operations; and technical assistance." To be considered a "qualified small business incubator" and qualify for money under the SBI program, an incubator must be a nonprofit 501(c)(3) organization focused on developing small businesses in an economically distressed or disadvantaged area. It must also have a sound business plan and meet other standards developed by the CTED, in conjunction with the Washington Association of Small Business Incubators.

CTED may award grants of up to \$3 million per recipient to qualified small business incubators for construction and equipment costs. In addition to the facilities' funds, CTED may provide grants, up to a maximum of \$125,000 per year per facility to a qualified small business incubator for technical assistance to small businesses. In order to receive a grant, the qualified small business incubator must show that it has the resources to complete the project

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in a timely manner and that the state grant is not the sole source of funds. Under current law, CTED has no duty to provide services related to the 2004 Act unless and until the program is funded by the Legislature. The SBI program received \$470,000 in the 2005-07 Operating Budget.

In the 2006 Supplemental Operating Budget, the Legislature directed the Joint Legislative Audit and Review Committee (JLARC) to review state policy, funding, and performance of small business incubators. To explore the policy question of whether incubators assist in the creation and expansion of firms, and keep businesses from failing, the JLARC studied three overarching topics: How many incubators are there in Washington? What is the state's role in supporting incubators and what are their costs to the state? How are incubators performing? The JLARC Report 7-10, issued August 23, 2007, concluded that it was not possible to determine the true impact of incubators in Washington and that "Like many other economic development efforts, incubators might best be characterized as ongoing experiments. Improved information will help policymakers understand whether these experiments are producing the desired results."

Summary of Bill (Recommended Amendments): The purpose of business incubators is to provide comprehensive business assistance to start-up and early-stage firms.

Business incubators are redefined as facilities or programs that provide, on an on-going basis, business-related training, services, and technical assistance to businesses that are less than five years old and have ten or fewer employees at the time of admission.

The phrase "economically distressed or disadvantaged area" is defined as a county with an unemployment rate 20 percent above the state average for the last three years, or an area determined by the CTED to be a low-income community.

The definition of qualified small business incubator is expanded to include nonprofit organizations under section 501 (c) (6) of the Internal Revenue Code. To be qualified, a small business incubator must also be certified.

CTED is directed to create a certification process for small business incubators. Certification must be renewed every five years.

Qualified small business incubators are required to collect extensive data on their client businesses, including financial information and impact on job growth. Incubators must also collect data from graduates and other businesses no longer receiving services, for at least five years after the client stops receiving services. This information must be submitted to CTED by March 1 of every year. Any incubator that fails to meet the annual reporting requirements will have its certification revoked.

Using this data, CTED must compile a report to the Legislature and the Washington Economic Development Commission. This report must be submitted by September 1 of every even-numbered year, beginning in 2010.

A property tax exemption is created for qualified incubators. The exemption is limited to the areas used by the nonprofit, and not those for which a client is charged rent or fees.

In order to receive the exemption, a qualified incubator must apply for the Washington State Quality Award (Award) within two years of receiving certification, and must reapply for the Award at least once every three years thereafter.

The act is null and void unless funded by June 30, 2008.

EFFECT OF CHANGES MADE BY ECONOMIC DEVELOPMENT, TRADE & MANAGEMENT COMMITTEE (Recommended Amendments): Adds a property tax exemption for qualified incubators. The exemption is limited to the areas used by the nonprofit, and not those for which a client is charged rent or fees.

In order to receive the exemption, a qualified incubator must apply for the Award within two years of receiving certification, and must reapply for the Award at least once every three years thereafter

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Engrossed Second Substitute: PRO: One-third of new businesses don't exist after two years. Fifty-six percent do not exist after four years.

The recent JLARC review illustrated the lack of consistent definitions, and the inability to judge how well incubators are doing. This also causes difficulty in determining how many incubators are operating, and how many are self-proclaimed incubators.

The core of the bill is to say there are scarce resources, and we should use standards and best practices to certify those incubators that will receive those limited resources. We should also track their success rate.

Persons Testifying: PRO: Representative Kenney, prime sponsor; Lincoln Ferris, Washington Association of Small Business Incubators; Tim Strege, Colleen Barta, William Factory Incubator.